

AR08

A large offshore oil rig is illuminated at night, with its complex lattice structure and various platforms visible against a dark background. The rig's lights create a strong contrast with the surrounding darkness. The rig is positioned on the left side of the image, with its main derrick extending upwards. Other smaller structures and lights are visible in the distance, suggesting a larger operation.

*Monterey*

PETROLEUM CORPORATION (1971) LTD.  
ANNUAL REPORT 1972



### Directors & Officers

W. G. McMahon  
President and Director  
J. D. White  
Vice-President and Director  
P. J. McCaffery  
Sec.-Treas. and Director  
F. G. McMahon  
Director  
R. Davis  
Assistant Sec.-Treas.

### Transfer Agent and Registrar

National Trust  
Calgary, Montreal, Vancouver  
330 - 8th Avenue S.W.

### Bank

Bank of Montreal  
Main Branch, Calgary  
140 - 8th Avenue S.W.

### Stock Exchange Listings

Vancouver Stock Exchange  
Calgary Stock Exchange  
Canadian Stock Exchange  
Montreal

### Solicitors

McCaffery and McCaffery  
300, 634 - 6th Avenue S.W.  
Calgary

### Auditors

Thorne, Gunn & Co.  
300, 330 - 9th Avenue S.W.  
Calgary

### Executive Office

2920 - One Calgary Place  
330 - 5th Avenue S.W.  
Calgary

## TO THE SHAREHOLDERS



Your Directors take pleasure in presenting the Company's Annual Report for the years ended November 30, 1971 and 1972, together with Audited Financial Statements and Auditor's Report for the same period.

The current year has been the most active and successful in the Company's twenty year history, and was highlighted by the South Ricinus gas discovery, 70 miles northwest of the City of Calgary. This Leduc-Devonian discovery, described in more detail later in this report, will substantially contribute to your company's reserves of natural gas and sulphur. We also anticipate that the current upward price trend for gas will enhance the profitability in developing this reserve and ensure Monterey of a substantial income for at least the next twenty years.

Your Company has participated in the drilling of twenty wells during the period under review and in 1972 experienced a fifty per cent success ratio. Ten of these wells were completed as commercial gas producers and one had a significant show of oil in the Mississippian formation.

During 1972 Monterey made application for an exploration license on approximately 300,000 "on-shore" acres in the Leeds area of England. This acreage borders on Home Oil Co. Ltd., Decca Resources Ltd. and the Trend Exploration Ltd. properties.

Decca Resources is now drilling the fourth well of a ten well program on lands adjacent to Monterey's application. Monterey is in the process of incorporating a U.K. subsidiary, Monterey Petroleum (U.K.) Ltd. We hope to receive approval of our application early in 1973.

Your Company is involved in two foreign drilling ventures. One is located in Dona Ana County of New Mexico and the other in New South Wales, Australia.

The New Mexico well is now drilling below 10,500' with a total anticipated depth of approximately 15,000 feet. This prospect will test a seismic anomaly and fault which indicates in excess of 1000' of throw. Other participants in this venture are George Brown, Houston, Texas; N. B. (Bunker) Hunt, Dallas, Texas; Princess Ventures Ltd., Vancouver, and Grimm Oil Company, Abilene, Texas.

The Australian well is being drilled in the Southern sector of the oil and gas producing Surat Basin on a 3,526,400 acre spread. The operator, for the test is Mayfair Minerals, Inc. of Abilene, Texas. Monterey has a ten per cent interest in the project.

A handwritten signature in dark ink, appearing to read "G. S. McWhorter".

PRESIDENT

# REPORT ON OPERATIONS

## SOUTH RICINUS

ALBERTA

By virtue of a farmout agreement dated September 8, 1971, and revised December 7, 1971, Albany Oil & Gas Co. Ltd. obtained from Amoco Canada Petroleum Company Ltd. certain interests in six sections of crown lease located in Twp. 34., Range 8, west of the Fifth meridian at South Ricinus. By drilling an exploratory test well Albany was entitled to earn a 100% working interest in the test well section, subject to a 15% overriding royalty reserved to Amoco, and a 30% working interest in the balance of the six section block. Amoco will have 30 days in which to elect to convert it's 15% royalty to a 70% working interest at such time as the farmees have recovered their costs from the revenues produced by the test well. Monterey subsequently acquired a 6% working interest in the acreage by committing to 20% of the well cost. Provision was made whereby Albany could reduce the Monterey position to a 5% working interest by paying to Monterey one-sixth of Monterey's share of the well costs.

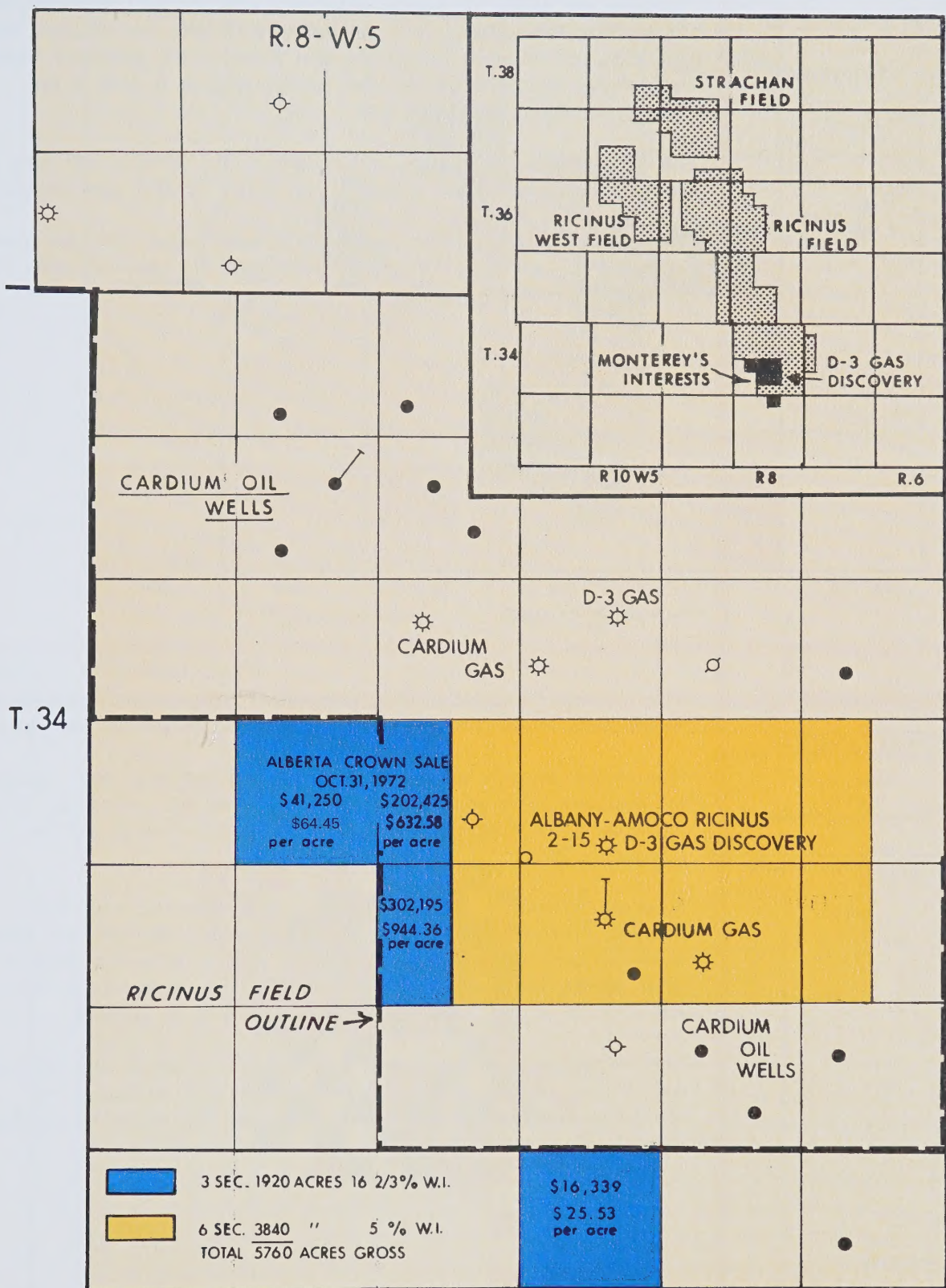
On October 31st, 1972, Monterey and other partners acquired, in a Crown Reserve sale, three sections of land in the Ricinus area of Southern Alberta for a total consideration of \$560,000. Two of these sections offset the Albany-Amoco Ricinus discovery well.

The discovery well, Albany-Amoco Ricinus 2-15 spudded on November 30, 1971, has now been drilled to the total depth of 14,600' and encountered not less than 400' of net pay in the Leduc D-3 reef. The well was logged and completed as a major natural gas discovery in the Leduc D-3 formation.

A partial blowout at 12,500 feet in the Banff formation, resulted in the hole being re-drilled from the 8,850' level at considerable additional cost to the participants. The Banff reservoir, which contains "sweet" gas under extremely high pressure, will not be completed in the 2-15 discovery but will be thoroughly tested in all subsequent wells.

The calculated absolute open flow of the discovery well is estimated at 460 million cubic feet of gas per day, which is indicative of an excellent reservoir with optimum deliverability. The gas analysis of the well is almost identical to the composition of the West Ricinus field, which produces dry gas with a sulphur content of approximately 30%.





RICINUS AREA, ALBERTA

## COALDALE AREA

LETHBRIDGE

The Company entered into an agreement with Sulpetro of Canada Limited involving the drilling of twelve exploratory wells in the Lethbridge-Coaldale area of Southern Alberta. This 229,000 acre farmout was obtained from Pan Canadian Petroleum. Under the first phase of the agreement Monterey will provide one-fourth of the costs of the program to earn a net one-eighth interest in 144 sections.

An additional 24 well option, if exercised by the partners, will earn your company a net one-eighth interest in the entire 229,000 acre farmout.

To date twelve wells in the program have been drilled, with four completed as commercial gas wells. Development drilling in the discovery areas will be carried out during 1973.

## VIKING AREA

CENTRAL ALBERTA

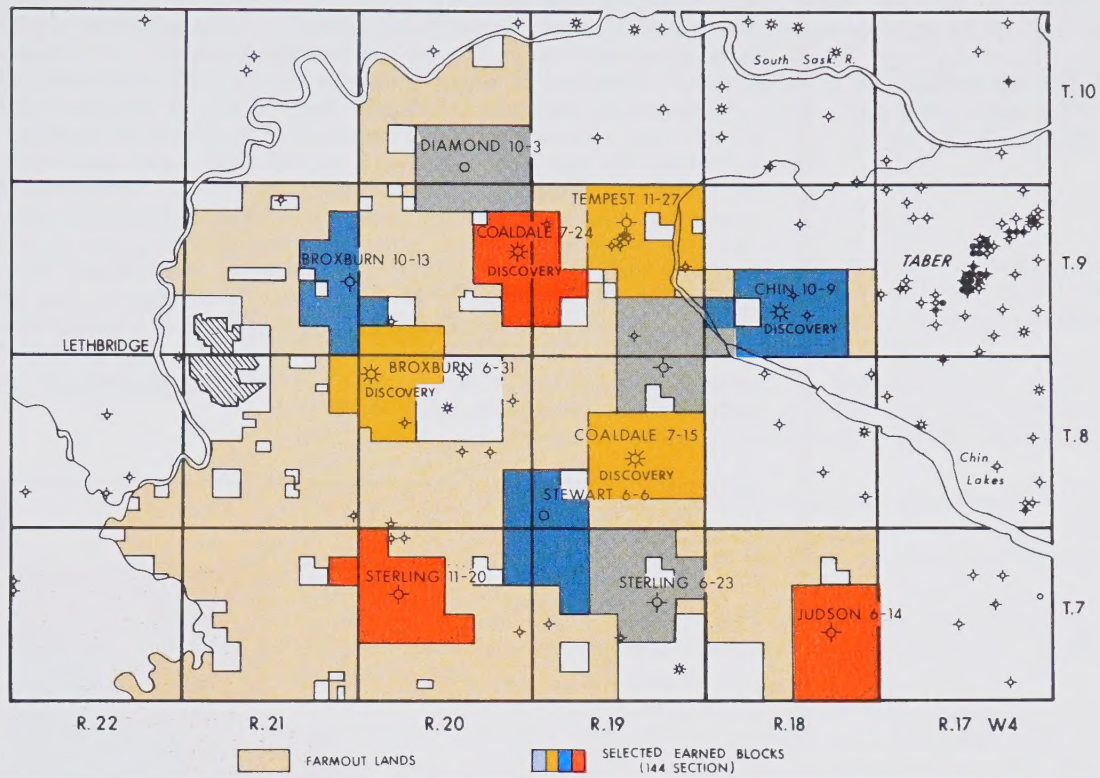
Your Company acquired a 5% working interest in a six-well program on 36,480 acres in the Viking area by contributing 6% of the well costs.

Five of the six wells encountered gas reservoirs and have been completed for the taking of production. The sixth well has been abandoned. After recovering costs of the producing wells, Monterey's interest will be reduced to 2½%.

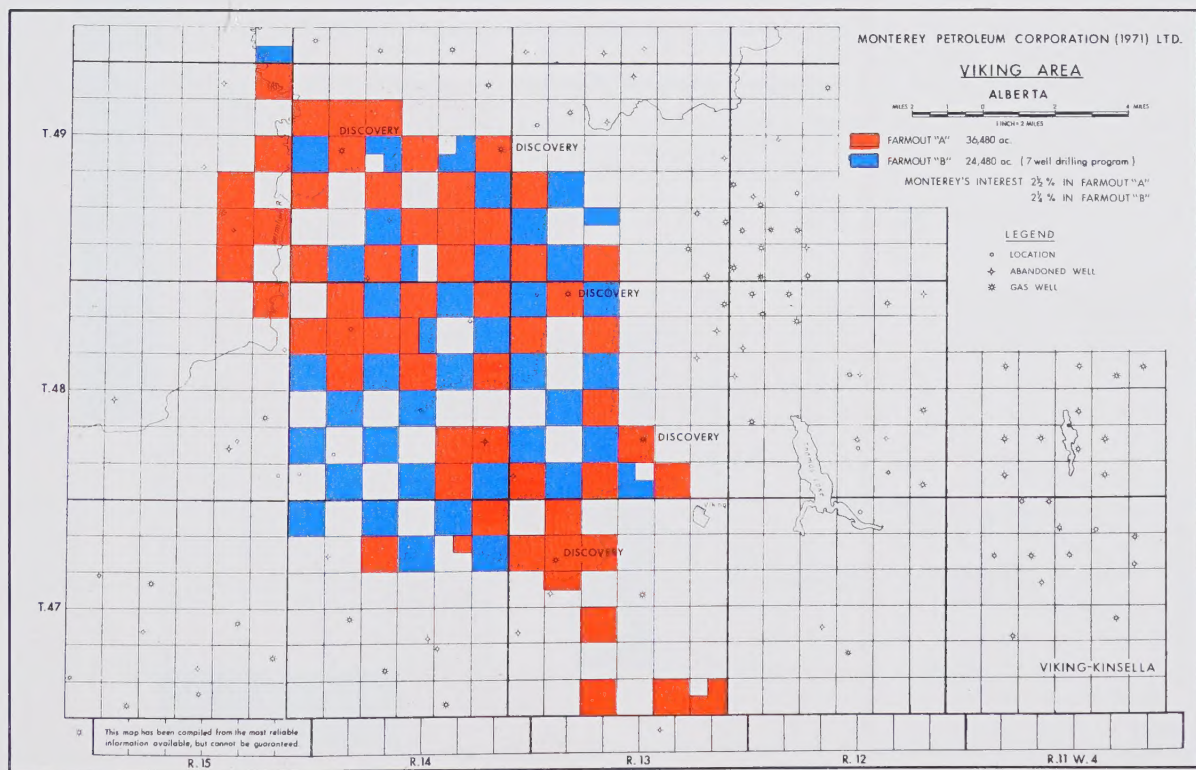
A second farmout in the same area has been negotiated with Pan Canadian Petroleum Ltd., and under this agreement Monterey will earn 4.25% in seven drill sites, (seven sections) on the 38 section block of land. After payout, Monterey's working interest will be reduced to 2.125% on the well location acreage and 2.125% in the remaining 31 sections.

Until further tests are completed, it is difficult to project the flow rates and ultimate reserves on this project, however it is anticipated that approximately 30 million cubic feet of gas per day should be recovered from the farmout acreage.





LETHBRIDGE - COALDALE AREA



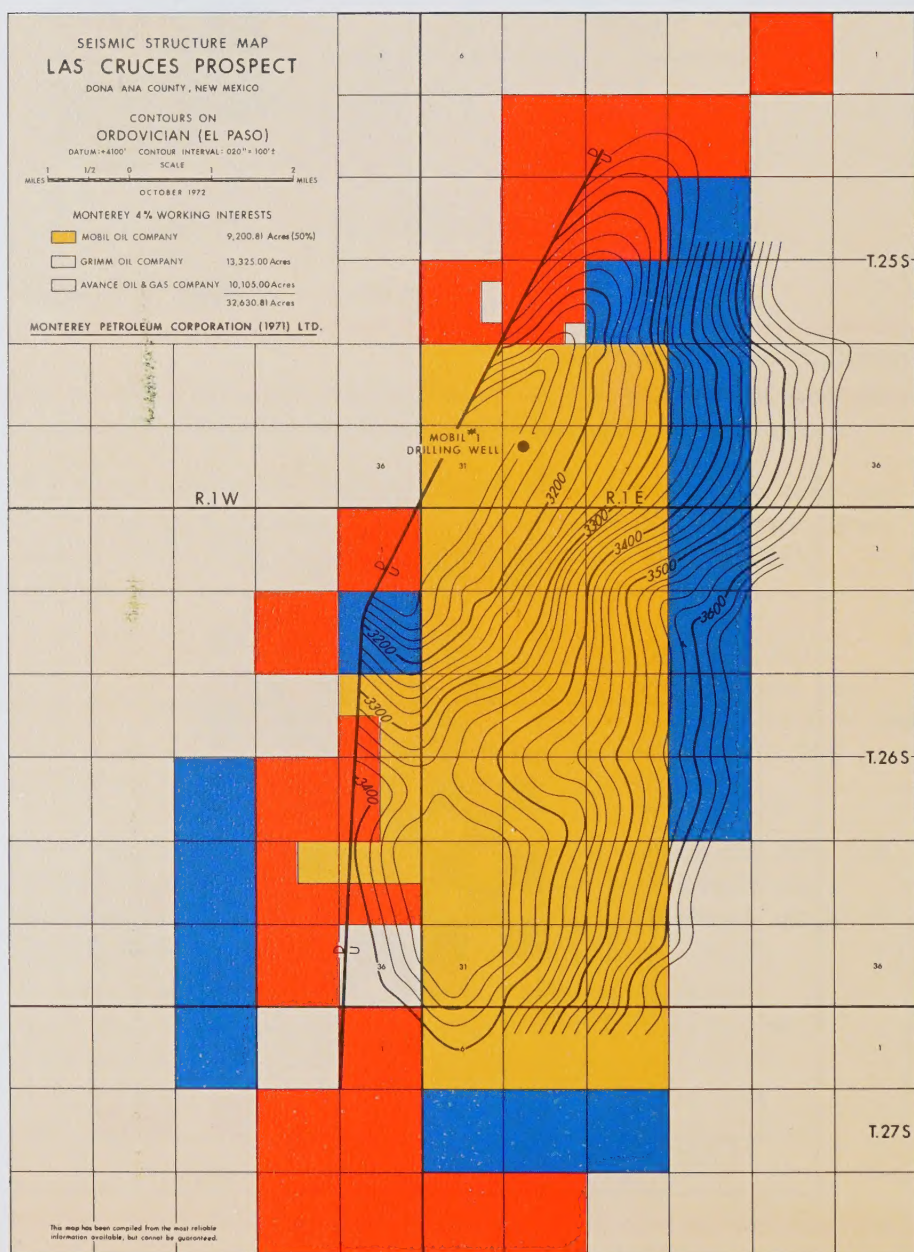
VIKING AREA - CENTRAL ALBERTA



# LAS CRUCES PROSPECT

DONA ANA COUNTY  
NEW MEXICO  
MOBIL #1-32 WELL

Monterey is participating in an El Paso (Ellenburger) 15,000 foot exploratory test which is now drilling below 11,000' on this 32,000 acre prospect in Dona Ana County, New Mexico. Monterey has obtained a 4% working interest in the prospect, with Grimm Oil Company of Abilene, Texas as operator. The test is being drilled in Section 32, Township 25, South, Range 1, East, on a structure developed from a seismic program recently completed in the area. The seismic data indicates a north-south trending anticline that is faulted on the west side by a normal fault, and that there is in excess of 1,000' of closure on the structure. Robert G. Anderson's geological report concludes that based on the outcrops of the sedimentary beds in the Franklin Mountains, located approximately 20 miles east of the prospect, that the well should encounter the following sedimentary formations: Lower Cretaceous carbonate reefs, Permian reefs, (Pennsylvania Des Moines reefs), Mississippian to Ordovician limestone. The prospect is being drilled in the search for natural gas. There are natural gas pipeline facilities in the immediate area, and if production is found the gas can be marketable at an early date at favourable price levels.





## PAN OCEAN CAROLINE WELL

ALBERTA

## MOREE PROSPECT

NEW SOUTH WALES  
AUSTRALIA

The Company participated in the drilling of a 13,000' Beaverhill Lake well in Lsd. 8 of section 1-35-6-West of the Fifth Meridian in the Caroline area of central Alberta. The well was dry and abandoned at a cost of \$24,000 to the Company, and Monterey earned a 10% working interest in the well and a 5% working interest in 6,560 lease acres. Further activity is not anticipated on this land, although the area is receiving increased attention by other oil companies.

Monterey has recently acquired the right to earn an undivided 10% working interest in Petroleum Exploration Licenses 182 and 192, (3,526,400 acres). In addition Monterey will earn a 10% working interest in Petroleum Exploration License Application 277 (492,800 acres).

In order to earn the 10% working interest Monterey must participate in the drilling of four Hutton Sandstone tests (4,000') and also contribute to a \$120,000 seismic program. These commitments must be carried out over a two year period.

The first well is now in progress and should be completed by the end of December 1972. The second, third and fourth wells will be drilled in six month intervals with the seismic program commencing between the second and third wells.

In the event Monterey elects not to participate in the subsequent three wells and the seismic program, Monterey will not earn an interest in any of the acreage.

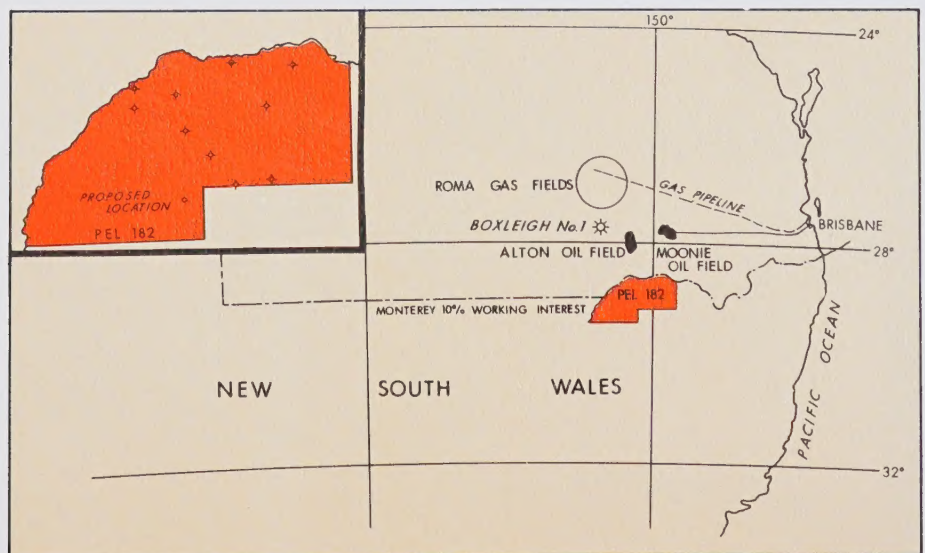
It should be noted that the Australian Government has a subsidy agreement whereby it will repay 30% of any drilling costs and also 50% of any seismic costs. Monterey will receive a 12½% share of any of these subsidy payments.

The four well program is located in the southern portion of the Surat oil and gas producing basin which is located 200 miles southwest of Brisbane and 425 miles north-northwest of Sydney.

The Hutton sandstone has excellent reservoir characteristics with porosity ranging from 18-32%. Oil and gas shows have been noted especially in the southern portion of the Surat Basin on the Moree Prospect.

Market conditions for both oil and natural gas from the Moree prospect are good. Both crude and natural gas pipelines extend westward into the Surat Basin from the City of Brisbane.

Mayfair Minerals, Inc. of Abilene, Texas is the operator.





## MINING KAMLOOPS AREA

BRITISH COLUMBIA

The Company acquired through Milestone Mines Ltd. (NPL) a 50% interest in 29 claims (Shelly claims) in the Kamloops area of British Columbia. The cost to Monterey was \$7,250. Following a preliminary study and report by Dr. H. A. Quin in April, 1972, a \$4,000 soil sampling program has been carried out and the results thereof are presently being interpreted. The north boundary of the Shelly claims lie within two miles of the Afton Mines Ltd. property on which is located a copper find which is believed to be of a commercial nature.

## FINANCIAL HIGHLIGHTS

During 1972, the Company raised the net sum of \$671,250 by virtue of the following three underwriting arrangements:

1. February 1972 A Best-Efforts offering of 1,350,000 Class A shares at 25c per share was successfully completed through the auspices of Midland-Osler Securities Ltd. of Calgary, netting the treasury \$326,250 after commissions.
2. May 1972 Hemsworth, Turton & Co. Ltd., jointly with Carlisle, Douglas & Co. Ltd., underwrote 200,000 Class A common shares at 35c per share netting the treasury \$70,000.
3. July 1972 Hemsworth, Turton & Co. Ltd. of Vancouver underwrote 6000,000 Class A common shares at 25c per share and 200,000 Class A common shares at 30c per share netting the treasury \$205,000 after commissions. The underwriter was also granted a 90 day option from July 27, 1972 to take down a further 200,000 Class A common shares at 35c. This option was subsequently exercised by Hemsworth, Turton & Co. Ltd. at a net gain of \$70,000 to the Monterey treasury.

Your directors have arranged for a line of credit at a Commercial Bank in order to carry out it's future development drilling obligations and working capital requirements.

## CORPORATE

A special resolution registered September 17, 1971, changed the name of the Company to Monterey Petroleum Corporation (1971) Ltd., and effected certain changes in the capital structure of the Company. The original outstanding share capital of 4,200,000 was reduced to 420,000 Class A shares, and the authorized capital became 20 million shares without nominal or par value, 10,000,000 of which are Class A participating voting shares and 10,000,000 of which are Class B participating non-voting shares.

The maximum consideration for which the present authorized capital of the Company can be issued is \$5,000,000. The approvals of the Calgary Stock Exchange and The Alberta Securities Commission were duly received for this capital re-organization.

We are pleased to report that your company's shares are now listed on the Vancouver and Canadian Stock Exchanges, in addition to the Calgary Stock Exchange. The two new listings will provide a much broader distribution of Monterey's shares.



# ACREAGE & EXPLORATION, AND DRILLING RECORD 1972

Area		Working Interest	Gross Acreage	Net Acreage	Number Wells Drilled	Drilling in Progress	Wells Committed Not At Present	Option Wells	Oil	Gas	Dry
South Ricinus	(A)	5%	3,840	192	1					1	
	(B)	16 2/3%	1,920	320							
Viking	(A)	2 1/2%	36,480	912	6					5	1
	(B)	2 1/8%	24,480	520			7				
Earned											
Lethbridge-Coaldale	(A)	12 1/2%	92,160	11,520	12					4	8
Option Lands	(B)	12 1/2%	136,320	17,040				24			
Caroline		5%	6,560	328	1						1
Dona Ana, New Mexico		4%	32,630	1,305		1					
Moree, New South Wales Australia		10%	4,019,200	401,920		1		3			
TOTALS			4,353,590	434,057	20	2	7	27	0	10	10



THOMPSON RIG #12

Drilling Albany Amoco  
 Ricinus 2-15-34-8W5  
 14,600' Leduc-D-3  
 Gas Discovery



# FINANCIAL STATEMENTS

YEAR ENDED NOVEMBER 30, 1972

## AUDITORS' REPORT

To the Shareholders of  
Monterey Petroleum Corporation (1971) Ltd.

We have examined the balance sheet of Monterey Petroleum Corporation (1971) Ltd. as at November 30, 1972 and 1971, and the related statements of income and deficit and source and application of funds for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at November 30, 1972 and 1971, and the results of its operations and the source and application of its funds for the two years then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding periods.

Calgary, Alberta  
December 11, 1972

*T. Hare, Dunn & Co.*  
Chartered Accountants

## BALANCE SHEET

NOVEMBER 30, 1972  
(with comparative figures at November 30, 1971)

	1972	1971
<b>CURRENT ASSETS</b>		
Cash - - - - -	\$ 50,120	14,141
Accounts receivable - - - - -	1,049	14
	<u>51,169</u>	<u>14,155</u>
<b>OTHER ASSETS</b>		
Investments, at nominal value - - - - -	1	1
Drilling deposits - - - - -	3,500	3,500
	<u>3,501</u>	<u>3,501</u>
<b>CAPITAL ASSETS (note 1)</b>		
Property and equipment, at cost - - - - -	711,655	711,655
Less accumulated depreciation and depletion - - - - -	10,118	10,118
	<u>701,537</u>	<u>701,537</u>
	<u>\$ 756,207</u>	<u>\$ 718,193</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank advances, unsecured - - - - -	\$ 94,000	94,000
Accounts payable and accrued liabilities - - - - -	88,263	88,263
Payable to director - - - - -	-	-
	<u>182,263</u>	<u>182,263</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (note 2)</b>		
Authorized		
10,000,000 Class "A" voting shares without par value		
10,000,000 Class "B" non-voting shares without par value		
Issued		
3,088,650 (1971 - 538,650) Class "A" shares - - - - -	1,650,480	1,650,480
<b>DEFICIT</b> - - - - -	<u>1,076,536</u>	<u>1,076,536</u>
	<u>573,944</u>	<u>573,944</u>
	<u>\$ 756,207</u>	<u>\$ 718,193</u>

SUBSEQUENT EVENT (note 3)

Approved by the Board

Director

Director

*[Signature]*  
*[Signature]*



# STATEMENT OF INCOME AND DEFICIT

YEAR ENDED NOVEMBER 30, 1972  
(with comparative figures for 1971)

	1972	1971
Revenue		
Sale of oil, net - - - - -	\$ 292	\$ 663
Interest and royalty - - - - -	1,621	4
	<u>1,913</u>	<u>667</u>
Expenses		
Stock exchange and listing costs - - - - -	18,598	675
Prospectus costs - - - - -	6,335	-
Travel and business development - - - - -	18,488	-
Professional services - - - - -	3,753	1,660
Legal and audit - - - - -	12,659	4,455
Salary and employee benefits - - - - -	4,940	-
Stationery and annual report - - - - -	5,548	1,656
Rent - - - - -	1,980	-
General and administration - - - - -	8,579	502
Abandoned property and dry holes - - - - -	28,783	87,718
Lease rentals - - - - -	603	766
Depreciation - - - - -	417	473
Depletion - - - - -	209	502
	<u>110,892</u>	<u>98,407</u>
	108,979	97,740
Gain on sale of capital assets - - - - -	-	3,675
LOSS FOR THE YEAR (note 4) - - - - -	108,979	94,065
Deficit at beginning of year - - - - -	967,557	873,492
DEFICIT AT END OF YEAR - - - - -	<u>\$1,076,536</u>	<u>\$ 967,557</u>
LOSS PER SHARE, based on a weighted average of shares outstanding during the year	<u>\$0.06</u>	<u>\$0.20</u>

# STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED NOVEMBER 30, 1972 (with comparative figures for 1971)

	1972	1971
SOURCE OF FUNDS		
Issue of common shares (note 2) - - - - -	\$ 671,250	\$ 23,730
Proceeds from sale of capital assets - - - - -	-	8,777
	<u>671,250</u>	<u>32,507</u>
APPLICATION OF FUNDS		
Loss for the year - - - - -	108,979	94,065
Items not involving current funds		
Depreciation and depletion - - - - -	626	975
Leases surrendered - - - - -	-	87,718
Gain on sale of capital assets - - - - -	-	(3,675)
	<u>626</u>	<u>85,018</u>
Funds applied to operations - - - - -	108,353	9,047
Additions to capital assets - - - - -	686,239	1,565
	<u>794,592</u>	<u>10,612</u>
INCREASE (DECREASE) IN WORKING CAPITAL DEFICIENCY - - - - -	123,342	(21,895)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR - - - - -	7,752	29,647
WORKING CAPITAL DEFICIENCY AT END OF YEAR - - - - -	<u>\$ 131,094</u>	<u>\$ 7,752</u>



# NOTES TO FINANCIAL STATEMENTS

YEAR ENDED NOVEMBER 30, 1972 AND 1971

## 1. CAPITAL ASSETS

	1972			1971
	Cost	Accumulated Depreciation and Depletion	Net	Net
Petroleum properties				
Productive - - - - -	\$ 548	\$ 454	\$ 94	\$ 135
Non-productive - - - - -	678,404	—	678,404	—
Mining claims - - - - -	7,500	—	7,500	—
Development costs - - - - -	20,801	6,477	14,324	14,542
Production equipment - - - - -	3,067	3,054	13	247
Office equipment - - - - -	1,335	133	1,202	1,000
	<u>\$ 711,655</u>	<u>\$ 10,118</u>	<u>\$ 701,537</u>	<u>\$ 15,924</u>

Depreciation on equipment is provided on a straight-line basis at an annual rate of 10%. Depletion on productive petroleum properties and development costs is provided on a unit of production basis. Non-productive property costs and mining claims are charged to income when the properties are surrendered.

Under the terms of a farmout agreement, the operator, Albany Oil & Gas Limited, has the right to convert its overriding royalty to a 5% working interest in the farmout lands by paying the participants a portion of their costs. If the right is exercised, the company will recover approximately \$74,000 of its capital expenditures. This right expires in March, 1973.

## 2. CAPITAL STOCK

By special resolution dated September 1, 1971 the authorized capital was changed as follows:

- (i) Converting the 4,200,000 issued shares into 420,000 Class "A" shares without par value.
- (ii) Redesignating the remaining unissued 1,800,000 shares as Class "A" shares.
- (iii) Creating 7,780,000 new Class "A" shares and 10,000,000 new Class "B" non-voting shares without par value.

During 1971, 118,650 Class "A" shares were issued at a price of 20 cents per share in settlement of an indebtedness of the company to a director in the amount of \$23,750.

During 1972, 2,550,000 Class "A" shares were issued for cash as follows:

Number of Shares	Price	Amount	Commissions	Net
1,950,000	\$.25	\$ 487,500	\$ 16,250	\$ 471,250
200,000	.30	60,000	—	60,000
400,000	.35	140,000	—	140,000
<u>2,550,000</u>		<u>\$ 687,500</u>	<u>\$ 16,250</u>	<u>\$ 671,250</u>

On April 1, 1972 stock options were granted to directors of the company to acquire a total of 175,000 Class "A" shares. These options are cumulative and exercisable one-third each year over a three year period at 50c per share in the first year, 75c per share in the second year and \$1.00 per share in the third year.

By agreement dated August 18, 1972, the company is committed to issue 61,538 Class "A" shares for an interest in a petroleum property. This issue has been approved by all regulatory bodies except for the Canadian Stock Exchange.

## 3. SUBSEQUENT EVENT

Subsequent to November 30, 1972, the company became committed to participate in a drilling program which requires an initial expenditure by the company of \$30,000.

## 4. INCOME TAXES

The company reflects in the accounts depreciation and depletion in excess of capital cost allowances, lease acquisition costs, and development costs claimed for tax purposes. There are no taxes currently payable and costs available to apply against future income for tax purposes exceed amounts reflected in the accounts by \$578,000 (1971, \$548,900).

## 5. OTHER STATUTORY INFORMATION

	1972	1971
Number of directors - - - - -	4	3
Aggregate remuneration of directors as directors - - - - -	Nil	Nil
Number of officers - - - - -	2	3
Aggregate remuneration of officers as officers - - - - -	Nil	Nil
Number of officers who are also directors - - - - -	2	3



REGENT RIG #9

Drilling Pan Ocean  
Caroline 8-1-35-6W5  
13,000' Beaverhill  
Lake Test



